Erdogan's Risky Geopolitical Pirouette. Turkey's Economy in "Troubled Waters"

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Turkey's economy has been in increasingly difficult straits for months, especially since the failed July 2016 coup attempt. The latest move by President Recep Tayyip Erdoğan to fire his central bank head and replace him with a more amenable loyalist has already resulted in the largest one-time interest rate cut in the bank's history. Will this be enough to revive growth in the troubled economy in time for the next national elections in 18 months? What seems to be Erdogan's overall economic strategy as he tries to balance Washington, Beijing, Moscow and even Brussels? And does it have a chance to revive economic growth?

On July 25, Turkey's new central bank governor, Murat Uysal, cut the bank's main interest rate by an eye-popping 4.25%, from 24% to 19.75%. It took place three weeks after Erdogan sacked the previous governor for refusing to cut the economy-killing high rates, even after the lira had long passed out of the 2018 crisis. It was the first rate cut in three years and followed the firing of a central bank head who followed the economic orthodoxy that high interest rates are needed to kill inflation, another fraudulent modern economic myth made popular in the 1970's by Fed chief Paul Volcker.

At 24%, Turkey had the highest interest rate of any major economy. Notably, the lira barely reacted to the big cut, leading Erdogan to demand that Uysal continue with further cuts. In doing so the Turkish president demonstrated his lack of reverence for one of the most powerful mandates of world finance, namely that politicians have no right to interfere in the sacred business of the "gods of money" controlling the world central banks.

Ever since the Basle Bank for International Settlements was created in 1930 by Bank of England Governor Montagu Norman, with help from the US bankers, nominally to deal with German World War I reparations payments under the Young Plan, but as it soon became clear, to serve as a politically independent world central bank monetary cartel, central bank independence has become dogma. The BIS helped create the devastating myth that central bankers independent of any elected political influence, guided by their superior wisdom, would manage economies far better than central banks that were subject to political pressure, or, god forbid that were actually state or public banks.

As has been demonstrated by many economic historians and detailed in my book, The Gods of Money: Wall Street and the Death of the American Century, every major financial boom and subsequent crash since creation of the US Federal Reserve in 2013 in a Wall Street bankers' coup, has been created by central bank interventions, usually using interest rates. The bogus "business cycle" theory is little more than an elaborate smoke screen to conceal the role of the Fed or the ECB in the EU in controlling the economy in the interests of what US Congressman Charles Lindbergh and other Wall Street critics in the 1920's called the Money Trust.

Will it work?

What Erdogan has done by firing Murat Cetinkaya as governor and putting a political crony in his place has set off alarm bells among western central bankers. Erdogan followed the rate cut news by declaring,

> "This was what needed to be done. Even this cut is not enough…"

The lira even rose after the rate cut, emboldening Erdogan. The question is whether the Turkish economy and Erdogan will succeed in reviving the troubled Turkish economy in time to improve his electoral chances in coming months before next national elections following the political defeat in the key municipal elections in both Ankara and Istanbul.

The high rates were imposed by the former central bank governor to halt a free-fall of the Lira in 2018 that Erdogan blamed on foreign interference. In effect Erdogan was right to the extent that the US Fed had begun a major series of its own rate increases "to normal," whatever that means, and Quantitative Tightening that was sending shock waves around the world. However, the Fed actions were clearly not specifically aimed at Turkey.

For the previous ten years Erdogan and the Turkish economy had taken advantage of almost a decade of historically low global interest rates following the 2008 financial crash.

During the economic boom, cheap credit flowed into construction of hotels, apartments, bridges, railways and other projects creating a huge economic boom, but mostly on money borrowed from abroad in dollars or Japanese Yen or Euros. By 2018 Turkish corporations held some $200 billion in foreign loans. When the Fed began its reversal, foreign lenders to high-profit markets like Turkey began to exit, fearing the worst, leading to a Lira collapse.

From January 2018 to the present the lira lost a staggering 37% against the dollar as Turkish and foreign investors fled the falling lira, making it nearly impossible to repay the foreign loans from earnings. Companies went bankrupt, unemployment rose to 15% officially, and inflation near 25% by October, 2018 as the price of imports soared. With an economic boom financed with foreign loans for projects that earned in lira, the economy went into free-fall during 2018, a major reason for Erdogan's poor election results this year.

Clearly reacting to the economic collapse and the negative impact of 24% central bank rates, Erdogan went so far as to oppose central bank dogma and propose that interest rates outside his political control were "the mother and father of all evil," telling Bloomberg in a May 14 2018 interview that, "the central bank can't take this independence and set aside the signals given by the president."

Now Erdogan clearly feels able to act on that by getting a political crony to head the central bank. However with such a high level of foreign currency corporate debt, it is clear that 19.75% interest rates or even zero or negative rates as in the EU will not be enough to create a new prosperity in Turkey.

The Erdogan Pivot

Interesting enough, in 2018 Erdogan began to suggest, according to close business allies, that the 2008 Lehman Bros global financial collapse had led him to lose faith in western capitalism.

All of this takes place amid a turbulent geopolitical backdrop. Turkey's ongoing attempts to create its own "buffer zone" against the Syrian Kurds on his borders, his growing ties to Teheran, Moscow and Beijing, and the growing tensions with NATO partners over Turkish drilling ships offshore Cyprus are leading some commentators to predict that Erdogan plans to take Turkey out of NATO and to join with China and Russia and other Eurasian states in an alliance around the Shanghai Cooperation Organization where Turkey is presently a "dialogue partner."

Erdogan's refusal to back down to Washington pressure on purchase of Russian advanced S-400 anti-missile defense systems, said to be the world's most advanced, has heightened such speculation of an Erdogan geopolitical "pivot east."

Moreover, on July 2, following the Japan G20 meeting, Erdogan was in Beijing as official guest of China President Xi Jinping. There Erdogan dropped earlier sharp criticism of what have been described as "re-education camps" where a reported 1 million ethnic Uyghur Muslims are interned. Turkey historically considers the Turkic Uyghurs to be related, and refer to China's Xinjiang Uyghur Autonomous Province as East Turkestan.

This time Erdogan pragmatically dropped critique of Beijing's Muslim policies and focused on what he considered more crucial—money: credits and loans from China and Chinese companies for infrastructure projects in Turkey as part of the China Belt and Road Initiative. While in Beijing the Turkish president stated to the press that it was, "uncontested that all ethnic groups living in Chinese Xinjiang live happily in the conditions of development and prosperity of China." Just four months earlier Erdogan's Foreign Ministry had declared the situation of the Uyghurs in Xinjiang, "a great embarrassment for humanity." Quite a shift.

In 2018 Turkish-Chinese bilateral trade was $23 billion, according to the Turkish Statistics Office, making China Turkey's third largest trading partner. Most of that, some $18 billion is China export to Turkey. Erdogan is clearly eager to change that more to Turkey's favor. There was no grand announcement after the Xi-Erdogan talks of new Chinese investments in Turkey.

Will the growing tensions of Erdogan with Washington, and now increasingly with Germany and other EU states, lead to a break with NATO? At this point it is highly unlikely. The EU, especially Germany, UK and Italy are far the largest importers of Turkish products.

China is not in a position with its rapidly slowing economy and declining trade surpluses to cushion the economic blow of a Turkey pivot out of NATO and the West to the East and the SCO. The financial panic resulting would plunge Turkey into deep depression so long as Turkey abides by the rules, still, of Anglo-American central banking and financial markets. Ironically, Erdogan has made tiny gestures towards a non-western model, but to date with little effect beyond the 4.25% interest rate cut from his hand-picked new central bank chief. He is not ready to risk all in an economic and political alliance with the SCO or with Iran. The result is that rather than an Erdogan "geopolitical pivot" to the east, we see an Erdogan "pirouette" to east, the west, even north and south, trying a delicate balancing act to gain most from all. The risk is he could end up displeasing all.

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